

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER



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BRIAN C. McNEIL
EXECUTIVE SECRETARY

ARIZONA CORPORATION COMMISSION

DATE: SEPTEMBER 7, 1999

DOCKET NO: SW-02573A-99-0264

TO ALL PARTIES:

Enclosed please find the recommendation of Hearing Officer Lyn Farmer. The recommendation has been filed in the form of an Order on:

KINGS RANCH UNIT II
(RATES)

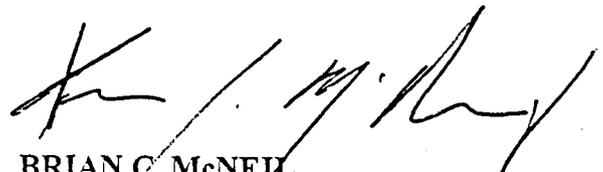
Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Hearing Officer by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by 10:00 a.m. on or before:

SEPTEMBER 13, 1999

The enclosed is NOT an order of the Commission, but a recommendation of the Hearing Officer to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

SEPTEMBER 14, 1999 and SEPTEMBER 15, 1999

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250.


BRIAN C. McNEIL
EXECUTIVE SECRETARY

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BEFORE THE ARIZONA CORPORATION COMMISSION

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF
KINGS RANCH UNIT II, TREATMENT PLANT
FOR AN INCREASE IN RATES.

DOCKET NO. SW-02573A-99-0264

DECISION NO. _____

ORDER

Open Meeting
September 14 and 15, 1999
Phoenix, Arizona

BY THE COMMISSION:

Kings Ranch Unit II, Treatment Plant ("Kings Ranch" or Applicant") is operated as a sole proprietorship engaged in the business of providing sewer utility service to the public in a portion of Yavapai County, Arizona. On April 21, 1999, the Arizona Corporation Commission ("Commission") received from Kings Ranch an application requesting authority to increase its rates and charges.

On May 20, 1999, the Commission's Utilities Division Staff ("Staff") determined that Kings Ranch's application was sufficient.

On July 19, 1999, Staff filed its Staff Report, recommending that alternative rates be approved without a hearing.

DISCUSSION

Kings Ranch is a sole proprietorship providing sewer utility service to a subdivision of 49 lots located in Black Canyon City, Arizona. Applicant received its Certificate of Convenience and Necessity in Decision No. 57447 (July 10, 1991). Kings Ranch's current rates and charges were established in Decision No. 59432 (December 20, 1995). This rate application was deemed sufficient on May 20, 1999 and adopted a test year ending December 31, 1998 ("TY").

As of the time of the filing, Kings Ranch had 14 customers hooked up to its system. According to the Applicant, all of the 49 lots have been sold, but homes have only been built on 14 of the lots to date. Many of the lots were purchased for investment and it is not known when homes will

1 be built on the remaining lots. During the test year, Applicant's operations produced operating
2 revenues of \$3,752 and adjusted operating expenses of \$34,097, resulting in a net operating loss of
3 \$30,345. Applicant proposed that its currently monthly usage rate of \$28.00 be increased to \$60.00
4 and that the fee be charged to all lot owners. Staff proposed a monthly usage rate of \$68.00 for
5 customers receiving service.

6 **Rate Base**

7 Applicant was required to install a plant with the capacity to serve all 49 lots before it could
8 receive approval from the Arizona Department of Environmental Quality ("ADEQ"). In the
9 Applicant's previous rate case, Decision No. 59432, the Commission reduced the Applicant's plant-
10 in-service by 50 percent. In this case, Staff recommends that all of the Applicant's plant-in-service
11 be considered used and useful. Staff adjusted rate base to reduce accumulated depreciation by
12 \$21,665 to reflect the correct amount of depreciation associated with the plant that was considered
13 used and useful in Decision No. 59432; adjusted collections lines account by \$1,669; and increased
14 cash working capital by \$21.00. Staff recommended a rate base of \$126,803.

15 **Operating Income**

16 Staff made no adjustments to Applicant's \$3,752 amount of operating revenue. Staff adjusted
17 operating expenses to increase purchased pumping power and engineering contractual services, and
18 decreased depreciation expense by \$1,958. Staff recommends that Applicant's composite
19 depreciation rate of 5 percent be modified to more accurately reflect the useful lives of the assets.
20 Staff recommends a composite depreciation rate of 3.84 percent on a going forward basis. We agree
21 with engineering staff that depreciation should be as accurate as possible, and therefore will adopt
22 Staff's recommended modifications. Accordingly, the TY adjusted operating expenses were \$34,097,
23 resulting in adjusted operating income of (\$30,345).

24 **Revenue Increase and Rate Design**

25 The Applicant's TY loss of \$30,345 loss is primarily due to the fact that the sewer system is
26 designed to serve 49 customers, but is only serving 14. According to Staff, the Applicant would need
27 to serve 48 customers at its proposed rate of \$60.00 in order to "break even" (pay operating
28

1 expenses). Consequently, the Applicant seeks to charge a monthly non-user availability fee ("NAF")
2 of \$60.00 to the remaining landowners in the subdivision.

3 Applicant requested a similar fee when it sought its certificate in 1991 and again in its 1995
4 rate case. The Commission has never approved such a fee, and we agree that it is inappropriate here,
5 too. We decline to authorize such a fee to be paid by landowners who are not connected to
6 Applicant's system.

7 Applicant requested that the fee for customers receiving sewer service be increased from the
8 current \$28.00 per month to \$60.00 per month. Staff recommended that the rate increase to \$68.00
9 per month and approval of a one-time establishment fee of \$2,000 for all new customers to be treated
10 as revenue and used to offset operating expenses. At Staff's proposed rates, the Applicant would
11 collect \$11,424 from the \$68.00 charge and \$8,000 from establishment fees¹, for a total of \$19,424,
12 and will experience an operating loss of \$14,673.

13 We agree with the Applicant that \$60.00 per month for sewer service is appropriate at this
14 time. Although Kings Ranch has been operating at a loss since its inception and will continue to
15 incur losses even with these new rates, it is appropriate that the customers start paying for the actual
16 cost to provide service to their homes. We believe that these rates send the appropriate signals while
17 at the same time protect the current ratepayers from the risk that future development does not occur
18 as anticipated. Accordingly, we will authorize a monthly usage fee of \$60.00, and approve a one
19 time establishment fee of \$2,000 for each of the remaining unconnected lots.

20 * * * * *

21 Having considered the entire record herein and being fully advised in the premises, the
22 Commission finds, concludes, and orders that:

23 **FINDINGS OF FACT**

24 1. Applicant is an Arizona corporation engaged in the business of providing sewer utility
25 service to the public in a portion of Yavapai, County, Arizona, pursuant to authority granted by the
26 Commission in Decision No. 57447.

27 2. Applicant's present rates and charges for sewer service were approved in Decision No.
28

¹ Assuming the Applicant experiences its historical average of approximately four new connections per year.

1 59432.

2 3. On April 21, 1999, the Commission received from Kings Ranch an application
3 requesting authority to increase its rates and charges.

4 4. On May 20, 1999, Staff found Kings Ranch's application to be sufficient.

5 5. During the test year ended December 31, 1998, Applicant served 14 customers.

6 6. On approximately April 21, 1999, Applicant notified its customers and other
7 landowners in its certificated area of the proposed rates and charges by first class U.S. mail and, in
8 response thereto, one letter of protest has been received.

9 7. Staff conducted an investigation of Applicant's proposed rates and charges, and in the
10 Staff Report filed on July 19, 1999, recommended that an alternative rate schedule be approved
11 without a hearing.

12 8. The rates and charges for Applicant at present, as proposed in the application, and as
13 recommended by the Staff are as follows:

	<u>Present Rates</u>	<u>Proposed Rates Applicant</u>	<u>Staff</u>
<u>MONTHLY USAGE CHARGE:</u>			
Flat Rate	\$28.00	\$60.00	\$68.00
Non-user availability fee	0.00	60.00	0.00
One Time Establishment Fee (per unconnected lot)	0.00	0.00	2,000

14 9. Pursuant to the Staff Report, Applicant's original cost rate base is determined to be
15 \$126,803 which is the same as its fair value rate base ("FVRB").

16 10. Applicant's present rates and charges produced operating revenues of \$3,752 and
17 adjusted operating expenses of \$34,097, which resulted in a net operating loss of \$30,345 during the
18 test year.

19 11. The rates and charges Applicant proposed would produce operating revenues of
20 \$37,220 and adjusted operating expenses of \$35,836, resulting in a net operating income of \$1,384.

21 12. The rates and charges Staff recommended would produce operating revenues of
22 \$19,424 and operating expenses of \$34,097, resulting in a net operating loss of \$14,673.

23 13. Applicant's proposed rate schedule would increase each monthly customer bill by
24 114.28 percent, from \$28.00 to \$60.00. In addition, Applicant's proposed rates would include a

1 \$60.00 monthly non-user availability fee from each landowner in the certificated area.

2 14. Staff's recommended rates would increase each monthly customer bill by 143 percent,
3 from \$28.00 to \$68.00.

4 15. Staff's recommended depreciation rates are appropriate and should be adopted.

5 16. Non-availability fees are not appropriate under these circumstances.

6 17. The rates and charges adopted herein are reasonable.

7 18. Applicant is in total compliance with federal and state regulations, standards, and
8 permits.

9 **CONCLUSIONS OF LAW**

10 1. Applicant is a public service corporation within the meaning of Article XV of the
11 Arizona Constitution and A.R.S. Sections 40-250 and 40-251.

12 2. The Commission has jurisdiction over Applicant and of the subject matter of the
13 application.

14 3. Notice of the application was provided in the manner prescribed by law.

15 4. The rates and charges authorized hereinbelow are just and reasonable and should be
16 approved without a hearing.

17 **ORDER**

18 IT IS THEREFORE ORDERED that Kings Ranch Unit II Treatment Plant is hereby directed
19 to file on or before September 30, 1999, revised rate schedules setting forth the following rates and
20 charges:

21 **MONTHLY USAGE CHARGE:**

22 Flat Rate \$60.00

23 **ONE-TIME-ESTABLISHMENT FEE**

(per unconnected lot) \$2,000

24 IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service
25 provided on and after October 1, 1999.

26 IT IS FURTHER ORDERED that Kings Ranch Unit II Treatment Plant shall notify its
27 customers of the rates and charges authorized hereinabove and the effective date of same by means of
28 an insert in its next regular monthly billing.

1 IT IS FURTHER ORDERED that Kings Ranch Unit II Treatment Plant's request for a Non-
2 User Availability Fee is hereby denied.

3 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

4 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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7 CHAIRMAN

COMMISSIONER

COMMISSIONER

8
9
10 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
11 Secretary of the Arizona Corporation Commission, have
12 hereunto set my hand and caused the official seal of the
13 Commission to be affixed at the Capitol, in the City of Phoenix,
14 this ____ day of _____, 1999.

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16 _____
17 BRIAN C. McNEIL
18 EXECUTIVE SECRETARY

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1 SERVICE LIST FOR:

KINGS RANCH UNIT II

2 DOCKET NO.

SW-02573A-99-0264

3 Philip Albins
4 KINGS RANCH UNIT II
5 TREATMENT PLANT
6 P.O. Box 109
7 Black Canyon City, Arizona 85324

8 Paul A. Bullis, Chief Counsel
9 LEGAL DIVISION
10 1200 W. Washington Street
11 Phoenix, Arizona 85007

12 Deborah Scott, Director
13 ARIZONA CORPORATION COMMISSION
14 1200 W. Washington Street
15 Phoenix, Arizona 85007

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